

SUBURBAN MARYLAND



A handful of transactions kept Suburban Maryland leasing afloat amidst pandemic challenges

In Q4, the Suburban Maryland market climbed out of the worst quarterly leasing activity it had seen in five years, closing the quarter with 0.5 million square feet (msf) leased. While this bump in activity leaves Suburban Maryland faring better than many office markets in the midst of a “pandemic pause,” this is likely a unique quarterly increase rather than a sustainable change in activity and reversal of market sentiment. Leasing volume is still below the five-year quarterly average of 0.8 msf and was bolstered by two large transactions in the financial services industry. Capital One completed an 83,000-square-foot (sf) renewal at 2 Bethesda Metro Center and Walker & Dunlop, Inc is relocating into a 60,000-sf space at 7272 Wisconsin Avenue – just across the street from its current location at 7550 Wisconsin Avenue. Walker & Dunlop’s lease is notable as it is leaving an older building and moving into a newer, trophy asset, taking advantage of softer market conditions and favorable deal terms available.

Availability rises again for the fourth consecutive quarter

As the pandemic lingers on, availability continues to swell and reached a high for the year of 21.1% in Q4. This is an increase of 70 basis points (bps) from last quarter and 170 bps from one year ago. Space on the market is increasing due to deteriorating demand as many tenants look to postpone making significant real estate decisions. In 2020, 50.4% of transactions were renewals, a large portion of those being short-term. This likely allows tenants to wait for more clarity surrounding the pandemic and the future of workplace trends before committing to long-term agreements or moving into new space. Sublease supply had remained relatively stable in Suburban Maryland, fluctuating by only 35,432 sf between Q1 and Q3. However, in Q4 sublease availability jumped by a staggering 27.0% (0.4 msf) ending the quarter with 1.5 msf of sublease space available.

Asking rents hold firm; landlords offer increased concessions

Average asking rents in Suburban Maryland have held and even seen a slight increase throughout 2020, concluding the year at \$29.68 per square foot (psf) – up 1.5% over the quarter and 3.0% over the year. The moderate rise in asking rents is more of a function of new product being added to the market at the same asking rates seen pre-pandemic, rather than landlords actually increasing asking rents. Despite the weakening market dynamics, landlords have been hesitant to reprice their listings, rather, they have chosen to offer generous concession packages. Elevated concession offerings are keeping tenant effective rents low.

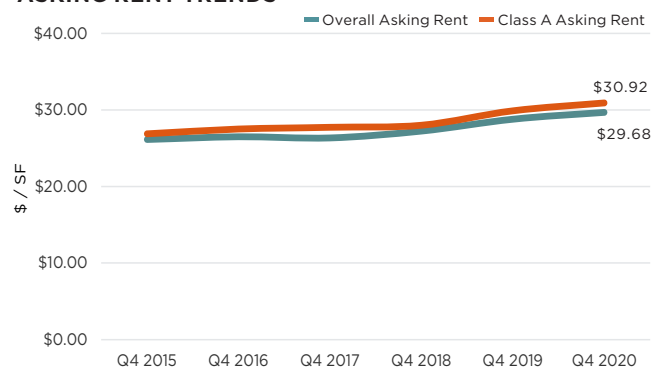
Outlook

- As a majority of tenants wait for the pandemic to pass before committing to new leases and many return unused space to the market, oversupply will likely cause office dynamics to erode further
- Landlords are feeling the strain of the ongoing crisis and diminishing demand which will keep the market firmly in the tenant’s favor
- Tenants who are willing to sign a lease in current conditions will find a surplus of options, increased concessions and favorable deal terms

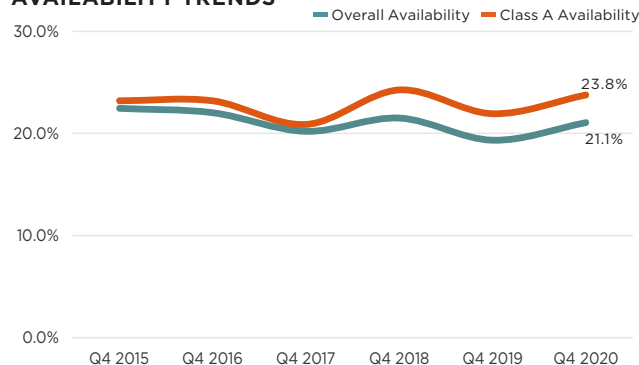
KEY STATISTICS

	Q4 2019	Q4 2020	y-o-y Change
Inventory	61.6 MSF	62.0 MSF	▲
Availability Rate	19.3%	21.1%	▲
Asking Rental Rate	\$28.80	\$29.68	▲
Class A Asking Rental Rate	\$29.90	\$30.92	▲
Quarterly Leasing Activity	0.5 MSF	0.5 MSF	◀▶

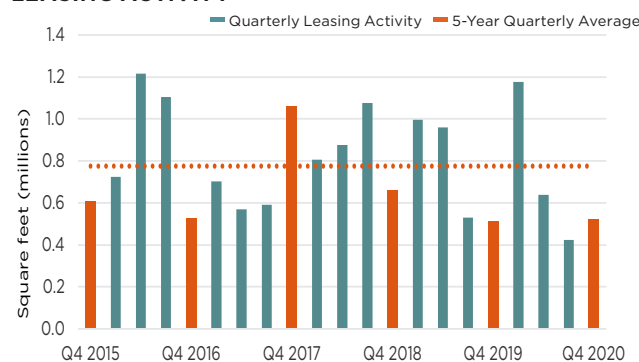
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

37.3%

of major transactions were **renewals** by square footage

55.8%

of large transactions occurred in the **Bethesda / Chevy Chase** submarket by square footage

51.2%

Financial Services sector tenants represented 51.2% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Capital One	83,000	2 Bethesda Metro Center	Renewal	Bethesda / Chevy Chase	Financial Services
Walker & Dunlop, Inc.	60,000	7272 Wisconsin Avenue	Relocation	Bethesda / Chevy Chase	Financial Services
U.S. Food and Drug Administration	40,035	11785 Beltsville Drive	Expansion	Laurel / Beltsville	Government
Kiewit Infrastructure Co	30,807	7850 Walker Drive	New Location	Landover / Lanham / Greenbelt	Professional Services
UBS Group	23,000	7272 Wisconsin Avenue	Renewal	Bethesda / Chevy Chase	Financial Services
OpGen, Inc.	21,362	9717 Key West Avenue	New Location	Rockville	Pharmaceuticals
Golden Key Group	20,728	8400 Corporate Drive	New Location	Landover / Lanham / Greenbelt	Professional Services
Perfect Office Solutions	15,622	7404 Executive Place	New Location	Landover / Lanham / Greenbelt	Coworking
Adventist Health System	15,000	820 W Diamond Avenue	Expansion	Gaithersburg / Germantown	Healthcare
Amperand Media	14,886	7501 Wisconsin Avenue	Renewal	Bethesda / Chevy Chase	TAMI

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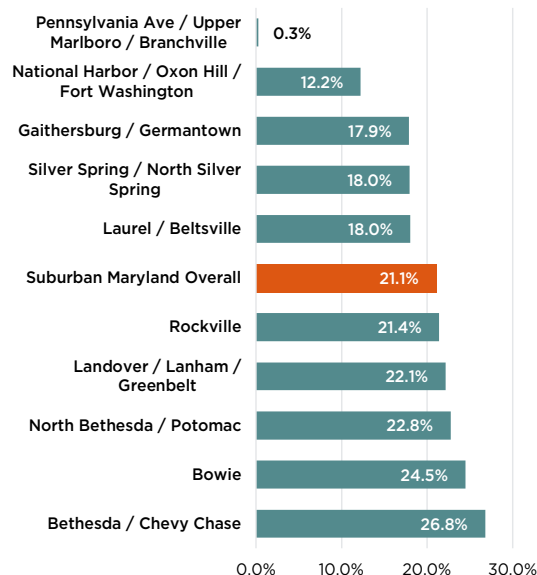
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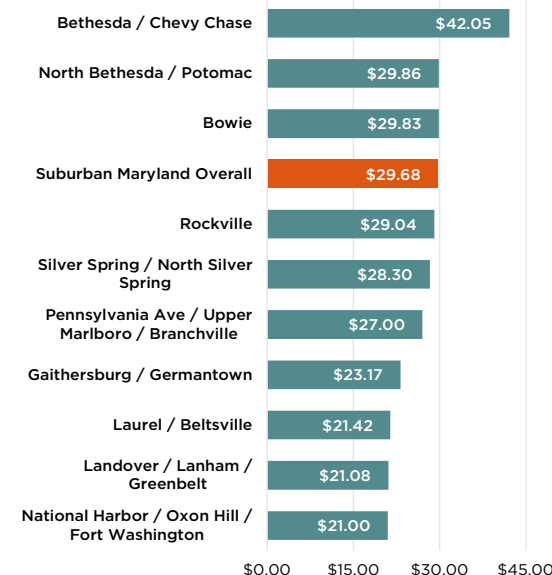
AVAILABILITY RATE COMPARISON

Suburban Maryland Submarkets



RENTAL RATE COMPARISON (\$/SF)

Suburban Maryland Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot (psf). Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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